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TAGS: [ECON](#) [PGOV](#) [PREL](#) [EINV](#) [BL](#) [EFIN](#) [PINR](#) [ASEC](#)
SUBJECT: BOLIVIA: A VIEW FROM THE BANKS

Classified By: CDA Krishna Urs for reasons 1.4 (b,d).

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Summary
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11. (C) Bolivian bank executives report that the sector is currently solid, but bracing for more difficult economic times ahead. While weaker commodity prices and reduced remittances will take their toll on the real economy in 2009, the banker's greatest fear is that pressure on the Bolivian currency will prompt ever greater government currency controls. The sector has already witnessed increasing government efforts to curb dollar demand and they worry that Venezuelan advisors may push the Morales administration to adopt currency controls similar to its Caribbean ally. Moreover, as in all economic sectors of the Bolivian economy, bank supervisors have lost their independence and are now seen as merely an appendage of the Ministry of Hacienda (Treasury). End Summary.

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Bolivian Banks Are Solid
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12. (C) Juan Carlos Salaguez, the President of the Bolivian Private Banker's Association (ASOBAN), in meetings with Embassy officials and other bank executives, reported that banks made record profits in 2008 of around US\$115 million. As a result, they are on solid footing heading into what promises to be a more difficult year ahead. Last year's profits were largely generated from fees and commissions on currency trades, very few loans were made to the productive sector. That same pattern is likely moving forward, as productive investment continues to be stalled. Salaguez says that the government is constantly pressuring the sector to make more loans, but simply put, no one wants the money. The banks have had success in creating favorable packages for home loans and 20 year loans at 8 percent interest have helped stimulate home building, but finding clients for larger, commercial loans is problematic.

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Clouds on the Horizon
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13. (C) The Bolivian real economy is headed for more difficult times ahead. Lower commodity prices have already caused the first monthly trade deficits in Bolivia since President Morales took office. In April, the price paid for Bolivian gas in Brazil will adjust down to fully reflect the fall in world hydrocarbon prices for the first time (the export price is determined on a six month average of a basket of hydrocarbon products and adjusts every three months). Moreover, remittances, which contributed over US\$1 billion (or around 6 percent of GDP) to the economy in 2008, are set to drop significantly in 2009. Boris Marinkovic, Business Manager of the Banco Economico, explained to us that the sector is setting up a fund to cushion the banks against the growing downturn in the Bolivian economy.

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Exchange Rate Worries
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14. (C) As with most bank executives, the biggest concern for Pablo Bedoya, former ASOBAN president and general manager at the Banco Nacional, is that a worsening economy and poor economic policy making will cause a run on the national currency. In contrast to its neighbors, over the last decade Bolivia has held its currency fairly steady against the dollar. Exchange rate changes have been small and incremental. At a recent forum, Central Bank President Gabriel Loza claimed that he is merely following this tradition by keeping the currency steady (other would say fixed) since August, but many are beginning to see pressure

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building on the national currency. October witnessed that first large purchases of the dollar and, for the first time in many years, exchange houses are beginning to offer a better than official rate for the U.S. currency. Bank holdings are starting to reflect the changing sentiment as dollar accounts have risen from 50 to 52 percent according to ASOBAN (about 75 percent of outstanding loans are in dollars). The government has taken several steps to try to reverse the trend. For example, they increased the reserve requirement for dollars from 12 to 42 cents and added additional taxes on currency exchanges. If more pressure builds (and Venezuelan advisors are listened to), the bankers fear that more severe exchange controls could soon become the reality.

15. (C) Bankers worried that an abrupt devaluation in the boliviano could cause a run on local currency deposits. Bankers also expressed concern that many Bolivian borrowers in dollars would be unable to make scheduled payments after an abrupt devaluation. A combination of local currency withdrawals and increased non-payments on dollar loans could threaten the viability of Bolivia's banking sector.

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Bank Supervisors
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16. (C) As in other sectors of the economy, oversight of the banking industry is becoming more politicized. Marinkovic told us that the sector is now looking to create a system of self supervision, as it can no longer rely on bank supervisors who are seen as wholly subservient to Treasury Minister Luis Arce. Additionally, Salaguez said that Arce is hostile to the sector, and meetings with ASOBAN are really only for political posturing. It is as if the government wants to say, "look, we met with the bankers, what more do you want?". As a result, while the sector did exceedingly well in 2008 and actually benefited government actions, the bankers fear that harder times could well illicit harsher treatment of the sector.

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Comment
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17. (C) The positive world context for the Bolivian economy has come to a close. With lower commodity prices and no way to expand production after years of low investment, both the real economy and the currency will be strained during this election year (presidential elections are scheduled for December). National reserves of around US\$8 billion will probably help postpone any economic collapse, but economic policy by the Morales administration has been erratic during the good times; it is likely to become even more so during an election year downturn. While still on very solid footing, Bolivian banks are bracing for difficult times ahead.
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